

**Remarks of  
Commissioner Linda K. Breathitt  
Federal Energy Regulatory Commission  
Commission Meeting of  
January 24, 2001**

**CAE-3: Illinois Power (ER01-123-000)**

**CAE-8: Alliance Companies (ER99-3144-000, *et al.*)**

I support these orders. The Illinois Power order establishes settlement judge procedures allowing parties in the Midwest region to resume discussions of issues surrounding RTO formation and cooperation. Both Alliance and the Midwest ISO are expected to participate in that proceeding. We also invite state commissions, as their views are very important to the process.

I believe it is crucial that these negotiations take place expeditiously in order to arrive at consensus and to identify ways for the Midwest ISO and Alliance to create a robust and seamless bulk power market in the Midwest. Achieving such a marketplace, in my opinion, is a very important objective for the region.

Our order identifies three specific goals that parties to these negotiations will be expected to achieve. First, they should address the desire of some parties to continue development of an arrangement that would carry forward ISO-features that were critical to certain parties in the Midwest. Second, they should address the desire of other parties for the different business model that had been developed by Alliance parties. Finally, parties should address the desire of numerous market participants, including state commissions and consumer representatives, for an

arrangement that would allow the entire Midwest region to operate a seamless market.

It is to this last issue that I particularly hope the parties will devote a significant amount of time and effort. I cannot stress enough the importance of establishing an arrangement that would allow the Midwest region to operate as a seamless, physical market. Many of the protests we received in the Illinois Power proceeding addressed the importance of resolving key operational issues in the region. These include: a more accurate determination of ATC, the internalizing of loop flows, effective congestion management, the elimination of pancaked rates, enhancing grid reliability and regional transmission planning and expansion.

In my opinion, finding the best way to address these vital inter-RTO market functions is the primary goal of the settlement discussions. I believe the parties made significant progress this past summer toward resolving some of these key issues, and I believe this collaborative process, as structured in this order, offers the best chance of bringing those discussions to a meaningful result.

We have set aside 30 days for these discussions to take place. I urge the parties to negotiate openly and sincerely, and to be ever mindful of the ultimate goal of creating a competitive bulk power marketplace in the Midwest. I, for one, will be greatly disappointed if the parties are unable to resolve these issues.

Now to the Alliance proceeding. I support this order addressing Alliance's compliance filing and I would like to commend the Alliance companies for the important steps they have taken to address our various concerns regarding the formation of the Alliance transmission organization. I also stress the need for the Alliance companies to continue working on certain issues in order to ensure that their significant efforts will culminate in the creation of a fair and competitive bulk power market in the Midwest region. This is the important goal that is shared with equal fervor by this Commission, Midwestern state commissions and transmission users. I am confident that RTOs in the Midwest will ultimately achieve the important goals this Commission established when it issued Order No. 2000 a little over one year ago. Alliance will play a vital role in making that happen.

Our order addresses various aspects of Alliance's compliance filing, specifically those areas to which we had found in previous orders that Alliance still needed to devote additional time and efforts. As this order points out, Alliance has taken important steps toward satisfying key RTO characteristics and functions, including independence, scope and configuration, operational authority, short-term reliability, rate design, congestion management, parallel path flow, ATC calculation, and planning and expansion. I agree with the findings in the order on these issues.

I also agree with the findings in the order that certain RTO functions require additional work by Alliance. These include ancillary services, market monitoring

and interregional coordination. I would like to direct my comments this morning to the third issue: interregional coordination. In the order, we find that the development of a properly functioning regional energy market requires an arrangement that provides a seamless market over a large geographic area. In addition, we direct Alliance to participate in the settlement judge procedures established in the Illinois Power order.

In my opinion, Function 8: Interregional Coordination, is becoming one of the most important RTO functions. In fact, in my opinion, it is as important as scope and configuration. This is ironic since this function is the only one that was added to the Final Rule that was not included in the NOPR. It was added as the eighth function because the Commission found convincing the comments from numerous interested parties identifying this as a major element in RTO formation.

I will ask that my colleagues join me in raising awareness within the industry of this RTO function and working with market participants to achieve meaningful and reasonable seams procedures. I see this as a key element that will ultimately determine whether or not our RTO program is successful. As long as we have RTOs, we will have seams and boundaries between these RTOs. How we deal with these inter-RTO issues will become increasingly important. In my opinion, RTOs will not be complete without effective interregional coordination arrangements.

